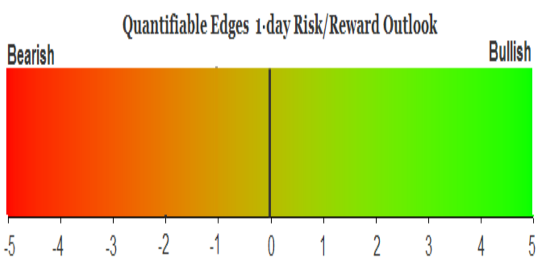
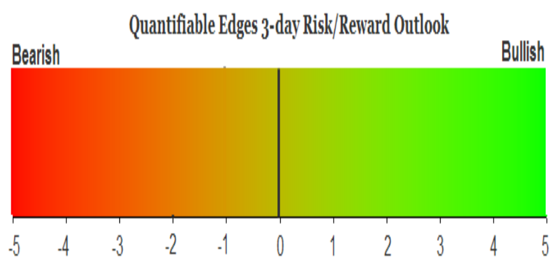
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 2, 2010 Volume 3 Issue 211

Market Overview





Tonight's Research Points

- A positive SPY close that is more than 1% below its high tends to be short-term bullish.
- VIX up and SPX up on a Monday is mildly bearish.
- 3/10 Offset HV remains low. It has been so for a very long time.
- The Aggregator System is flat.
- The NDX Aggressive Trend Timer is long.

Short-term Outlook

The Bottom Line

An upside move still appears more probable but risk/reward is poor. I'm flat ahead of the election results.

Summary of Recent Active Studies (see http://QuantifiableEdges.blogspot.com or Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Max Move
Active				
November 2, 2010	SPY up but 1% below high of day	1-2 days	Bullish	
November 2, 2010	SPX up. VIX up on Monday.	1 day	Bearish	
November 1, 2010	SPX down. Up Issue % > 55%.	1-3 days	Bullish	1.20%
October 28, 2010	1st Day Down After 5 up. Close > 200ma	1-9 days	Bullish	2.10%
Active - Long Term				
October 25, 2010	SPX Golden Cross	int term	Bullish	
October 20, 2010	20-high to 5 -low after persistent rise	1-12 days	Bullish	
October 18, 2010	SPX up. Issue% and Vol% very low	int term	Bearish	
September 20, 2010	Nas/SPX RS favors Nasdaq	int term	Bullish	
Dropped Tonight				
November 1, 2010	***SPX down Friday***	***1 day***	***Bullish***	
November 1, 2010	***1st Day of month***	***1 day***	***Bullish***	

If the avg max move is achieved the study will appear in ***bold italic blue*** and no longer be active

The Evidence

The market had a strong start to the day but couldn't maintain its momentum. It topped out shortly after 10am. Strong selling kicked in during the afternoon which took the indices negative, but bears couldn't follow through either. A late burst up left the market mixed. The SPX gained 0.1%, but the Nasdaq lost 0.1% and the Russell 2000 lost 0.7%. Breadth was also mixed as the NYSE Up Issues % came in at 51% while the Up Volume % was 48%. NYSE volume declined despite all the back and forth action.

One pattern I've shown in the past that can carry bullish implications is positive closes that finish well off their highs. The last time I discussed this pattern was in the 7/7/10 letter. I showed then that while the edge is short-term bullish, it has been a much more powerful pattern during downtrends. Below is a copy of the study when the market is in a downtrend. (*Not updated*.)

SPY closes up on the day but at least 1% below its high. Close < 200ma.
Buy on close. Sell X days later. $100k/trade. 1994 - present.

X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	34,083.47	50	27	22	54.00	3,570.66	-2,832.93	1.26	1.55	681.67
4	34,814.43	52	30	22	57.69	3,303.70	-2,922.57	1.13	1.54	669.51
3	43,767.71	53	31	22	58.49	3,068.60	-2,334.50	1.31	1.85	825.81
2	57,538.78	58	40	18	68.97	2,327.58	-1,975.79	1.18	2.62	992.05
1	28,639.86	65	41	24	63.08	1,709.60	-1,727.24	0.99	1.69	440.61

As you can see, results here are quite compelling. Now let's look at times like the present where the SPX is trading above its 200ma. (Not updated as this is the 1st instance since and results are the same as reported on 7/7.)

SPY closes up on the day but at least 1% below its high. Close > 200ma.
Buy on close. Sell X days later. $100k/trade. 1994 - present.

X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-3,606.58	33	19	14	57.58	1,527.56	-2,330.73	0.66	0.89	-109.29
4	-5,620.46	35	19	16	54.29	1,599.42	-2,250.59	0.71	0.84	-160.58
3	4,871.29	36	19	16	52.78	1,741.66	-1,763.76	0.99	1.17	135.31
2	9,022.70	38	24	14	63.16	1,438.99	-1,822.37	0.79	1.35	237.44
1	6,800.35	39	23	16	58.97	781.67	-698.63	1.12	1.61	174.37

Here we see the tendency to bounce short-term still exists but it is much weaker. I do still think it is worth considering though.

Once again Monday the SPX and the VIX both closed higher. This is more frequent on Mondays since there is a mild tendency for the VIX to rise on Mondays. Below is a study that looks at the SPX and VIX both rising on Mondays. If it seems like you're having déjà vu that is because this is the 3rd Monday in a row that this study has triggered.

SPX and VIX both close up on a Monday. SPX > 200ma.
Buy on close. Sell X days later. $100k/trade. 1998 - present.

X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-5,174.00	86	44	42	51.16	1,435.42	-1,626.97	0.88	0.92	-60.16
4	-13,000.90	88	41	47	46.59	1,263.13	-1,378.49	0.92	0.80	-147.74
3	-17,785.44	89	40	49	44.94	1,023.53	-1,198.50	0.85	0.70	-199.84
2	-20,583.26	89	37	52	41.57	749.91	-929.42	0.81	0.57	-231.27
1	-22,045.71	89	34	55	38.20	469.44	-691.03	0.68	0.42	-247.70

This setup suggests a mild downside edge that only lasts 1 day.

With the SPX again going nowhere the 3/10 Offset HV closed very low again. A few days ago I noted it had close below 0.3 for 4 days in a row and showed a study that looked at other instances of this happening in uptrends. Now that streak has been extended to 6 days. Since 1960 there have only been 4 other instances where the 3/10 Offset HV has closed below 0.3 for as many as 6 days in a row. Three out of the four saw moves higher in the short term, but this is just too few instances to even consider. The takeaway here is that the tightness of this consolidation is extreme. The move out of it could also be extreme.

Wednesday is a Fed Day and traders will want to keep that in mind as we approach the close tomorrow. In the Quantifiable Edges Guide to Fed Days I showed that a large factor in determining how bullish a Fed Day is likely to be is how the market closed the day before. I broke the instances down into quartiles. Times when the market closed in the bottom 25% of the daily range the day before a Fed Day showed very bullish tendencies on the Fed Day. When the close was in the top 25%, the bullish Fed Day edge was greatly muted.

Often as we approach a Fed Day I will look to take a trade based solely on this Fed Day tendency. This time I am going to sit it out. My reasons are 1) election results may have a large affect on the mood overnight Tuesday and early Wednesday, and 2) with the recent consolidation so tight, if the market does decide to sell off based on election news it could be a sharp one.

I have updated the Aggregator chart below.

The green Aggregator line tonight remains above zero. The positive value indicates the net expectation from the Active Studies over the next few days is for a move up. Meanwhile the black Differential line dropped back below 0. This means the SPX has outperformed expectations over the last few days. So we have positive expectations but a market that is relatively overbought. This is considered a neutral configuration. This can be seen on the Aggregator chart whenever both lines are on opposite sides 0. Due to this the Aggregator System turned flat at the close.

The green Aggregator line is set up to remain positive tomorrow. Of course that could change if bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,185.20. Any close at or below this level would move the black Differential line back into positive territory. This means the SPX will register "overbought" on nearly any up close, and "oversold" on any down close.

If not for the election acting as a big wild card, I would likely be looking to go long tomorrow if the market closed down and in the lower end of its range. More aggressive traders could consider this. Beware that a move out of the recent tight range could be sharp. Aggressive position sizing ahead of the news could be risky.

Intermediate-term Outlook (2 weeks – 2 months)– updated 11/1 – bullish
Not much to discuss from an intermediate-term standpoint. The market again made new rally highs this week. With the very tight action in the market over the past week, no studies of intermediate-term consequence emerged. I'm still not seeing strong evidence that the uptrend is about to end.

The Nasdaq/SPX relative strength indicator continues to favor the Nasdaq. A leading Nasdaq has historically been a good sign. The Advance/Decline line hit another new high this past week suggesting breadth remains positive. Momentum is certainly favoring the upside and the market is trading above important moving averages. Until the market begins to falter and more bearish evidence emerges, I'll continue to trade with a bullish bias. For my own trading a bullish bias means I tend to trade the long side with a little more aggressiveness and I will be extra selective with short trades.

Catapult and Capitulative Breadth Statistics
Catapult & CBI Presentation Link
Open Catapult Triggers
None

Catapult for ETF's Trades
None

Broad Market Large Cap CBI – 0

Additional New Trade Ideas

A full listing of system triggers can be found at the system triggers page each night. I will cherry pick some of my favorite setups from the S&P 100 and ETF lists along with occasional other trade ideas to track below.

None tonight. I'll look to play the reaction to the news rather than anticipate it.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Pri	% Gain/Los	Stop	Notes
TGT	11/1/2010	$51.94	$53.48	2.96%		sold on close per 80509

TGT was exited at the end of the day as per the System 80509 rules. A tweet was sent out intraday to alert subscribers.

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2010 Hanna Capital Management, LLC.